

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

APPLICATION OF KENTUCKY POWER COMPANY )	
d/b/a AMERICAN ELECTRIC POWER TO ASSESS )	
A SURCHARGE UNDER KRS 278.183 TO )	
RECOVER COSTS OF COMPLIANCE WITH THE )	CASE NO. 96-489
CLEAN AIR ACT AND THOSE ENVIRONMENTAL )	
REQUIREMENTS WHICH APPLY TO COAL )	
COMBUSTION WASTE AND BY-PRODUCTS )	

O R D E R

IT IS ORDERED that Kentucky Power Company, d/b/a American Electric Power ("Kentucky Power") shall file an original and 10 copies of the following information with this Commission, with a copy to all parties of record. Each copy of the data requested should be placed in a bound volume with each item tabbed. When a number of sheets are required for an item, each sheet should be appropriately indexed, for example, Item 1(a), Sheet 2 of 6. Include with each response the name of the witness who will be responsible for responding to questions relating to the information provided. Careful attention should be given to copied material to ensure that it is legible. The information requested herein is due no later than February 18, 1997.

1. Refer to the response to the Commission's January 13, 1997 Order, Item 9(a). The response refers to bids received from qualified labor contractors. Were bids solicited from low NOx burner manufacturers as well?

a. If so, indicate how many bids were received and describe the criteria used to select the winning bid.

b. If not, explain why bid solicitations were not made to low NOx burner manufacturers since the response to Item 9(c) indicates that this technology is available from numerous manufacturers.

2. Refer to the response to the Commission's January 13, 1997 Order, Item 9(f).

a. Were the retired burners fully depreciated in 1994? If no, provide the accumulated depreciation amount, as originally requested in Item 9(f)(4).

b. Were the retired burners fully depreciated by December 31, 1990, the end of the test year in Kentucky Power's last general rate case? If no, provide the total accumulated depreciation as of December 31, 1990.

3. Refer to the response to the Commission's January 13, 1997 Order, Items 12(d) and 12(e).

a. Explain why Kentucky Power considered the request in Item 12(e) to be not applicable, since Kentucky Power indicated that existing monitoring systems were taken out of service when the new continuous emissions monitoring equipment was installed.

b. Provide the information originally requested in Item 12(e).

4. Refer to the response to the Commission's January 13, 1997 Order, Item 15. Item 15 requested American Electric Power's ("AEP") current Clean Air Act Compliance Plan. AEP's October 14, 1994 system compliance plan was supplied in

response. Describe AEP's acid rain compliance planning activities since the 1994 plan was filed with the Public Utilities Commission of Ohio and indicate whether the 1994 plan has been updated or modified as a result of continuing compliance planning. Provide copies of any such updates or modifications to the October 14, 1994 compliance plan.

5. Refer to the response to the Commission's January 13, 1997 Order, Item 19(e). Kentucky Power indicated that it would provide the information for expanded Exhibits MDK-3 and MDK-4, the Gavin scrubber cost, for the months of October through December 1996 when available. However, in response to Item 20, Kentucky Power was able to provide the total settlement capacity charges for these months. The costs associated with the Gavin scrubbers are charged to Kentucky Power through the weighted average capacity rate, which in turn affects Kentucky Power's capacity settlement charge.

a. Explain how Kentucky Power was able to provide the total settlement capacity charges, but could not provide the Exhibits MDK-3 and MDK-4 information.

b. Provide the information originally requested in Item 19(e).

6. Refer to the response to the Commission's January 13, 1997 Order, Item 22, Sheet 4 of 4.

a. Explain how the cost or selling price of the following allowance categories is determined:

(1) Gavin Reallocation.

(2) P&E Transfers In and P&E Transfers Out.

(3) Intercompany Purchases and Intercompany Sales.

(4) Other.

b. Explain the meaning of the terms "P&E Transfers In" and "P&E Transfers Out" as shown on the December 1996 Allowance Settlement - Actual.

c. Explain the difference between the "Gavin Reallocation" allowances and the "Intercompany Purchases" allowances, which are apparently made from the Ohio Power Company inventory.

7. Refer to the response to the Commission's January 13, 1997 Order, Item 23. The response was unresponsive, since the only information Kentucky Power provided was the number of allowances actually purchased in 1996 and the projected purchases for 1997. Weighted average cost per vintage year information was not provided. Allowances assigned and withheld by the Environmental Protection Agency ("EPA") to Kentucky Power were not disclosed, even though EPA has already made assignments through 2015. Kentucky Power failed to provide its projection of purchased allowances under the Interim Allowance Agreement ("IAA") for 1998 and 1999. Provide all the information originally requested.

8. The emission allowance schedules provided in the responses to the Commission's January 13, 1997 Order, Items 22 and 23, indicate no allowances were assigned by EPA to Kentucky Power. Kentucky Power's 1995 Federal Energy Regulatory Commission Form No. 1 indicates that allowances have been assigned for future years. Since allowances are classified by the respective vintage year, explain why the schedules in Items 22 and 23 do not acknowledge Kentucky Power's assignment of EPA allowances for 1996 and 1997.

9. Provide a schedule showing the emission allowances awarded to Big Sandy Unit 1 and Unit 2 by EPA, by vintage year, for the years 1995 through 2015.

10. Refer to the response to the Commission's January 13, 1997 Order, Item 26.

a. Explain how the allowance price of \$115.43 was determined.

b. Explain why purchased allowances were referenced as part of the September 30, 1996 inventory, but no mention was made of EPA assigned allowances.

11. Refer to the response to the Commission's January 13, 1997 Order, Item 31. Identify the market price index referenced in the response. Indicate whether the publisher of the market price index is affiliated with the electric or coal industries.

12. Refer to the response to the Commission's January 13, 1997 Order, Item 53. In the three environmental surcharges authorized by the Commission, a single jurisdictional billing factor is determined and applied to all customers regardless of customer class.

a. Was Kentucky Power aware of this fact when it was designing its proposed surcharge mechanism?

b. Explain the circumstances that are unique to Kentucky Power which would support the customer class allocation step in its proposed surcharge mechanism.

13. Refer to the response to the Commission's January 13, 1997 Order, Item 53(e). Kentucky Power has proposed to recalculate the weighted average cost of capital monthly to more closely reflect the cost actually incurred.

a. Explain how Kentucky Power plans to document in its monthly surcharge filings the monthly cost of debt used to determine the monthly weighted average cost of debt.

b. Does Kentucky Power propose that the cost of equity be fixed for some period of time? Explain how long, when, and how it might be reviewed or recalculated.

14. Refer to the response to the Commission's January 13, 1997 Order, Item 59. Kentucky Power has stated that because it is not requesting recovery of the cost of allowances at this time, it has not reflected allowance sale revenues in its surcharge proposal. However, Exhibit EKW-6, page 6 of 12, shows that Kentucky Power is requesting to include a return on its allowance inventory in its surcharge proposal. In light of this fact, does Kentucky Power still contend that allowance sale revenues should not be used as an offset in the surcharge mechanism? Explain the response.

15. Explain any similar cost recovery mechanisms available to the other AEP System operating companies, whether it is for environmental costs or other specified costs. Provide copies of applications, reports, filings, and Commission orders.

16. What impact do recovery mechanisms, such as the environmental surcharge in Kentucky, have on the relative risk of a utility?

Done at Frankfort, Kentucky, this 7th day of February, 1997.

ATTEST:

PUBLIC SERVICE COMMISSION

  
Executive Director

  
For the Commission